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DE RUEHCV #3500/01 3341521
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R 301521Z NOV 06
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 7145
INFO RUEHBO/AMEMBASSY BOGOTA 7132
RUEHLP/AMEMBASSY LA PAZ 2411
RUEHPE/AMEMBASSY LIMA 0666
RUEHQT/AMEMBASSY QUITO 2497
RUEHAO/AMCONSUL CURACAO 1070
RUEHGL/AMCONSUL GUAYAQUIL 0716
RHEHNSC/NSC WASHDC
RUEHRC/DEPT OF AGRICULTURE USD FAS
RUCPDO/DEPT OF COMMERCE

UNCLAS SECTION 01 OF 02 CARACAS 003500

SIPDIS

SENSITIVE
SIPDIS

TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A
TAGS: [ECON](#) [EAGR](#) [VE](#)
SUBJECT: STOCKING UP FOR THE HOLIDAYS

REF: A. CARACAS 2831

- [1](#)B. CARACAS 0444
- [1](#)C. CARACAS 3412

[1](#)1. (U) SUMMARY: Economic inefficiencies, coupled with retrograde government policies, future uncertainty, and record-high consumer spending are making shortages an increasing part of life in the Bolivarian Republic of Venezuela. Recent weeks have seen recurring shortages of sugar and milk and many goods disappear and reappear with frustrating frequency. These disappearances seem only likely to increase as stockpiling in response to shortages creates more demand and shortages. END SUMMARY.

[1](#)2. (SBU) Sugar disappeared from store shelves throughout Venezuela in August of 2006 as Venezuela does not produce sufficient sugar for domestic consumption, and production this year was affected by a series of unfortunate events. Sugar cane must be cut within a short time period after it is ready for harvest, and this year the cutters went on strike and prevented farmers from harvesting their produce during the optimal period. Historically, refineries have exchanged raw sugar based on refining capacity, but this year many of the BRV-owned refineries were mired in corruption scandals, shutdowns and other inefficiencies, resulting in production problems throughout the whole sector. (Note: Four of the fourteen refineries in Venezuela are government-owned. End Note.) In addition, the price of sugar is controlled by the BRV and at present the fixed price is below the cost of production or importation (reftel A). The BRV resolved the August sugar crisis through massive importation from Brazil, though in the past week sugar has again disappeared. (Comment: The structural causes remain the same as previously, though it remains to be seen how the BRV intends to resolve the situation this time. End Comment.)

PRICE CONTROLS EXPLAIN MOST SHORTAGES

[1](#)3. (U) In addition to sugar, milk shortages have also been an on-going problem (reftel B). Fresh milk is virtually non-existent now and even boxed and powdered milk are in short supply. As with sugar and some other goods suffering

shortages, the cost of production for milk now exceeds the controlled price. In a similar vein, a bout earlier this year between coffee producers and the government led to large-scale shortages, government seizures and an eventual renegotiation of the fixed price (reftel B).

¶4. (SBU) In a recent meeting with the Agriculture Chamber (Fedeagro), econoffs were shown a 250-page study of the costs of production for Venezuela's major agricultural goods. Fedeagro is trying to convince the BRV to raise controlled prices for many goods, but admitted that this was unlikely given BRV concerns about inflation and food prices. They were more optimistic that they could convince the BRV to subsidize production. (Comment: Both price controls and subsidies distort the market and while the subsidies could prevent farmers and producers from being forced to sell their products at a loss, they would not solve the problems of underdevelopment of the agricultural sector. End Comment.)

¶5. (SBU) Additional shortages are expected as the Holiday season swings into full gear. Approximately 60-70 percent of Venezuela's foodstuffs are imported or are produced from imported sources, as are most toys and Christmas items. (Note: As an example, Venezuelans have the second highest per capita consumption of pasta in the world--much of it is produced here--but from imported wheat. End Note.) At a recent Venezuelan-American Chamber of Commerce (VenAmCham) event, many businessmen noted that due to the historically high consumption levels, they have not been able to build up inventories in advance of the Christmas shopping season. In addition, delays in obtaining dollars through Commission for the Administration of Foreign Exchange (CADIVI) has meant that importers were unable to purchase their goods sufficiently far enough in advance to have them here in time

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for the shopping season.

¶6. (SBU) Port infrastructure is at its breaking point due to huge volumes and transportation problems from La Guaira to Caracas. While notoriously inefficient, customs officials appear to have gotten worse of late; one contact told econoff that it took 30-45 days to get their foodstuffs through customs at the port of entry. Another contact said that the average time was 14-17 days, though that was up from 4-5 days only last year. (Note: The head of the BRV Customs and Tax Agency (SENIAT), Jose Vielma Mora, has been visiting ports and making many public statements about his intention to improve processing times as he tries to avoid being labeled the Grinch in the run-up to Christmas. End Note.)

¶7. (SBU) There is a lot of money on the street in Venezuela. Ever-increasing liquidity is fed by government fiscal policies, such as issuing the "aguinaldo," or additional 3 months salary for government workers in November, and negative real interest rates that discourage saving. Additionally, commercial banks have been heavily pushing credit cards with easy credit terms, and consumer debt is rising. Central Government spending has also spiked, with the BRV spending close to USD 6.8 billion in the past three weeks, according to the Central Bank (as opposed to the average USD 3.9 billion per month during 2006). This all has led to increasing demand and caused scarcity due to the aforementioned limits on supply.

¶8. (SBU) On top of all of the structural and seasonal problems, the approaching elections on December 3 have led to stockpiling by consumers anticipating a possible repeat of the demonstrations and violence that followed the recall referendum in 2004. The government has fed this cycle of uncertainty, circulating a variety of rumors of destabilization in recent weeks (see reftel C). (Note: Spot visits to local grocery stores in recent weeks have found customers fighting over shopping carts and shelves emptied by mid-afternoon. Econoff spent 50 minutes in line trying to check out this past weekend. The President of the

Association of National Supermarkets (ANSA) recently noted that while sales are up 13 percent this month (over already high amounts), they have two months of supply and no shortages are expected during the holiday season. End Note.)

19. (SBU) COMMENT: The structural problems of the Venezuelan economy are perhaps most evident in the shortages felt by every day consumers. Anecdotal reports add to the growing list of consumer products and raw materials missing in Venezuela (last week there was a shortage of concrete in Barinas state and a Brazilian contact noted that many of the major infrastructure projects planned are delayed due to lack of raw materials). The shortages are a result of BRV economic meddling, but also of record high demand and structural inefficiencies in the Venezuelan economy, none of which are likely to change any time soon. END COMMENT.
BROWNFIELD